Up or Aside?

Micro-foundations of Institutional Change in the Career Structure of UK Elite Law Firms

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ABSTRACT

We investigate institutional change as the co-occurrence of deinstitutionalization and institutionalization, while accounting for its determinants at multiple levels of analysis to further our understanding of how individual characteristics aggregated at the organizational level and organizational characteristics together account for the erosion and emergence of practices within the field. We empirically explore this question in a multi-level dataset of UK law firms and their employees, looking in particular at how the practice of equity partnership faded away and how non-equity partnership emerged as a new practice. Our results contribute to the literature on institutional change and the micro-foundation of institutions.

Keywords: Micro-foundations of institutions; institutional change; deinstitutionalization; institutionalization; law firms; equity partnership.

Recent scholarship in institutional theory in the past decade has examined the links between micro processes, how they aggregate at the organizational level, and institutional dynamics (Powell & Colyvas, 2008). The micro-foundations agenda in institutional theory, in particular, has tried to inform the role played by everyday actions and processes carried out at a more micro-level in the institutionalization process (Powell & Rerup, 2017). However, how this micro-level exactly works, what matters there and how it does, remain to be fully understood. For some scholars, this perspective put more focus and importance to broadly defined agents (Battilana, 2006; Powell & Rerup, 2017), while others see it as an opportunity to focus on interactions at various levels of analysis (Gibson & Vom Lehn, 2017). Recent work has framed this debate around the dichotomy of agency versus structure (Cardinale, 2018), while others have challenged this dichotomy to stress the importance of considering multiple levels (or a continuum of levels) of analysis in examining the micro-foundations of institutions (Harmon et al., 2018). These authors call for multi-level analyses to advance our understanding of the micro-foundations of institutions, taking into account that the characteristics of organizations are driven in part by the characteristics of their members and that the population of an organization, its composition and attributes influence its decision-making and this, in turn, influences more macro dynamics.

At the same time, research has examined institutional change (Micelotta et al., 2017), in particular through the prism of divergence and convergence of institutionalization and deinstitutionalization processes (Oliver, 1992). Institutions may erode under a variety of conditions, as they lose enactors and participants (Davis et al., 1994), creating space for new institutions to emerge (Ahmadjian & Robinson, 2001). Existing work on deinstitutionalization focuses on a single level of analysis and looks at the characteristics of organizations that explain non-conformity (Maguire & Hardy, 2009). However, conceptual research suggests the existence of trickling up mechanisms as individual behaviours lead to collective decisions to disengage from a practice (Clemente & Roulet, 2015), that is, the aggregate behaviours of individuals within organizations may tilt their decisions with regards to institutions (Oliver, 1992). Similarly, we can expect that institutionalization involves trickling down mechanisms, from the structure to the group to the individuals engaging in a practice (Harmon et al., 2018). Deinstitutionalization and institutionalization can be seen as two faces of the same coin (Maguire & Hardy, 2009) as there is a recursive process alternating deinstitutionalization of old practices and institutionalization of new practices (Zietsma & Lawrence, 2010; Clemente et al., 2017). Because of these mechanisms of trickling up and trickling down, a focus on the micro-foundations of institutional change as the co-occurrence of deinstitutionalization and institutionalization would inform more broadly the role of micro-level dynamics and their aggregation at the organizational level in institutional theory.

In this paper, we aim at explaining the link between organizational and aggregated individual characteristics, on the one hand, and institutional change, as captured in the co-occurrence of deinstitutionalization and institutionalization of a new practice, on the other hand, as one way to advance the micro-foundations agenda. In particular, we flesh out trickling up mechanisms that can ultimately explain why organizations deviate from existing practices because of their internal members and their idiosyncratic characteristics.

We empirically explore the question of how individuals, at the aggregate level, and organizational characteristics influence organizational decisions with regards to an institutionalized practice using an original and comprehensive multi-level dataset capturing the characteristics of organizations and their senior employees. Our quantitative study examines equity partnership in the UK legal industry and the growing number of firms engaging in a new practice: non-equity partnership (i.e., salaried partnership). Our dependent variable reflects the change of career structures and practices and the degree of engagement with the new practice, and thus the concurrent deinstitutionalization of the old practice (equity partnerships) and the institutionalization of the new one (non-equity partnership). The mutually exclusive transition from the collegial model of partnership (comprising only equity partnership) to the multi-tier partnership (including also non-equity partnership) is a strategically motivated change for law firms. We explore how demographic aspects of the organizational population such as profitability per equity partner, compensation disparity, percentage of partners on associates (normally referred to as leverage ratio), gender diversity, and partners' reputation are associated with the adoption – or the non-adoption – of the new practice of non-equity partnership.

Our work contributes to fleshing out organizational and aggregated individual determinants of institutional change, as they motivate and trigger organizations' deviance from institutionalized practices and the adoption and institutionalization of new practices. By looking at how individual populations influence organizational decisions with regards to institutionalized practices, we stress the importance of including a multiplicity of levels of analysis in the study of institutional change, and more broadly in the study of the micro-foundations of institutional theory.

MICRO-FOUNDATIONS AND INSTITUTIONAL CHANGE

In the last decade, institutional theory has increasingly paid attention to its 'micro-foundations' (Powell & Rerup, 2017) although this call dates back to Zucker (1991) and DiMaggio and Powell (1991). However, limited progress has been made since then (Powell & Colyvas, 2008). The objective of the micro-foundation movement is to "understand how individual-level factors impact organizations, how the interaction of individuals leads to emergent, collective, and organization-level outcomes and performance, and how relations between macro variables are mediated by micro actions and interactions" (Felin et al., 2015: 576). In institutional theory, the starting point of the micro-foundations agenda is the idea that institutions are modified and reproduced through the everyday actions of individuals (Powell & Colyvas, 2008). Individuals are not only cognitive carriers (DiMaggio & Powell, 1991), but also actors that can bend or reproduce institutions (Lawrence et al., 2009). One reason why progress has been limited in the micro-foundations of institutions is the lack of clarity with regards to what exactly micro-foundations are. In particular, there has been an oscillation between focusing on interactionism (Gibson & Vom Lehn, 2017) and a perspective considering agents as a broadly defined set of actors that can affect and reciprocally be affected by structure (Battilana, 2006) – "recurrent patterns of interaction or the mechanisms that cause them" (Cardinale, 2018: 137).

Micro-foundations of institutions: Agency and levels of analysis

A debate over the definition of micro-foundations exists, reflecting the tensions between individualism, holism and systemism (Reihlen et al., 2007). The micro-foundations of institutions can be defined as the ways individual behaviour can support or challenge institutions (Powell & Colyvas, 2008). For some authors, micro-foundations are a way to solve the agency vs. structure debate (Cardinale, 2018). Early work in this area indeed brought the role of agents to the front to explain endogenous institutional change (Battilana, 2006). Structure is the product of human agency but at the same time constrain human agency (DiMaggio & Powell, 1991). To solve this problem of embedded agency, Cardinale (2018) suggested that structure is not only a constrain to action but also a compass that orients agents, and provide them with pre-reflexivity. Empirical work has thus shown that institutional change can originate from the everyday action of individuals (Smets et al., 2012). Structure and agency are however often equated to a macro-micro divide (Emirbayer & Mische, 1998) which limits our view of what agents can be and the way they can bend or reproduce structure. "Bottom-up change" (Smets et al., 2012: 879) is not only the consequences of individuals slowly changing field-level practices, but individuals changing the decisions made by organizations, as their effect on structure is mediated by the organizational level of analysis.

Beyond further theorization of the agency vs. structure dichotomy, a focus on the role of agents needs to go beyond the sole role of individuals to take into account the way they affect organizational decision making as a population (Harmon et al., 2018). This is consistent with a view of social theory as accounting for individual-, organizational- and field-levels of analysis (Friedland & Alford, 1991). In the case explored by Smets et al. (2012), the change at the organizational level, triggered by individual-level changes in practices, ultimately led to the field-level institutionalization of a new practice. It shows that macro-level phenomena are not only the consequences of individual behaviours (Coleman, 1986), but are also the result of individuals and organizations interrelatedly affecting institutions (Udehn, 2002).

Looking at the behaviour of organizations through their micro-level composition is a way to move forward the research agenda on the micro-foundations of institutions, considering the importance of intermediate levels of analysis between individuals and fields. We focus here on how the demography and population characteristics of organizations can help us understand organizational decision making. Such perspective also enables to account for the nestedness of levels of analysis as "everything is micro to something and macro to something else" (Harmon et al., 2018). Including multiple levels of analysis when identifying the determinants of institutional processes also ensures that key mechanisms at the organizational- or field-levels are not ignored beyond individual behaviours.

Institutional change as the co-occurrence of deinstitutionalization and institutionalization: A new perspective on micro-foundations

In parallel to the debate on the micro-foundations of institutional theory, a recent body of work has brought together institutionalization and deinstitutionalization as two sides of the same coin (Zietsma & Lawrence, 2010) to explain and understand institutional change (Micelotta et al., 2017). Cycles of stability – in which actors engage in practices that amount into the reproduction of institutions – succeed to cycles of change – during which new practices emerge. As noted by Zietsma and Lawrence (2010), existing work in institutional theory tends to focus solely on either stability or change and to ignore the way in which one process leaves room for the other.

One of the processes at the core of institutional lifecycle is deinstitutionalization (Oliver, 1992; Maguire & Hardy, 2009). Deinstitutionalization is the process leading to the erosion or abandonment of a practice and can be triggered by either external pressures or internal agents (Maguire & Hardy, 2009). For Oliver (1992), deinstitutionalization refers to the erosion or discontinuity of an institutionalized organizational activity or practice. In fact, deinstitutionalization suggests a shift in existing practices and activities (Davis, et al., 1994). Deinstitutionalization and institutionalization are two interrelated process, as a practice is institutionalized when it has gained enough legitimacy to become a norm, and is completely deinstitutionalized when its legitimacy has finished eroding (Oliver 1992). Practices are rarely fully institutionalized or deinstitutionalized but are often in between, as the questioning of entrenched practices can give room for new practices to emerge (Ahmadjian & Robinson, 2001). In this sense, deinstitutionalization and institutionalization form the two versants of lifecycles in which practices emerge and erode, and form a broader conceptual picture to understand institutional change. Deinstitutionalization and institutionalization have however often been analysed separately, without empirically accounting for the interrelation between the two processes as we attempt to understand the processes and the pathways of institutional change (Clemente et al., 2017). Yet, if a practice is falling into abeyance, it might leave space for new ones to emerge unless the purpose and objective of the deinstitutionalized practice has lost meaning and value for the agents. In sum, in a number of contexts, institutionalization and deinstitutionalization happen jointly.

Deinstitutionalization, as the erosion or discontinuity of an institutionalized activity or practice, has a multitude of determinants at both the macro- and the micro-level (Oliver, 1992). Research on deinstitutionalization recognizes the key role of agents as they progressively disengage from the practice, until only a minority enacts it (Davis et al., 1994). Conceptual models of deinstitutionalization flesh out the mechanisms through which individual disengagement from a practice triggers a spiral of deinstitutionalization (Clemente & Roulet, 2015). This argument relies on the proposition that institutionalized practices rely on a majority enacting them, while deinstitutionalization is usually the sign of only a minority maintaining engagement in the practice. This mechanism relies on social control, as agents are punished for engaging in a practice that is marginalized and rewarded for engaging in a practice that has become a norm (Glynn & Huge, 2007). This approach also stresses the importance of the population of organizational members and its characteristics in the deinstitutionalization of practices.

We argue that a focus on the lifecycle of institutional change, with phases of deinstitutionalization and institutionalization, is a specifically informative context to understand the importance of multiple levels of analysis in advancing the micro-foundations agenda in institutional theory. In this study, we acknowledge for agency at the employee level and its consequences for organizational decision making, while exploring the co-occurrence of deinstitutionalization and institutionalization.

EMPIRICAL SETTING AND HYPOTHESES IN CONTEXT

Our empirical setting is the UK legal industry. Law firms are a prominent professional service firm industry, characterized by knowledge intensity and a professionalized workforce (Von Nordenflycht, 2010). The importance of human capital in this industry makes it a perfect case to study micro-foundations, considering the key role played by individuals and groups of individuals. The global legal industry tends to follow an American model (Dezalay & Garth, 2004) dictating organizational practices, in particular with regards to their career system (Malhotra et al., 2010; Malhotra et al., 2016).

In this study, we focus on the progressive emergence of non-equity or salaried partnership as an alternative to equity partnerships. Equity partners own part of the partnership and are entitled to part of the earnings, which makes this stage in a career very attractive, and plays an important role in motivating senior employees of law firms. Partnership is the natural promotion associates aspire to, as their careers progress (Malhotra et al., 2010; Malhotra et al. 2016). A decision to promote an associate to partner is risky and not taken lightly by the organization, and has a range of reputational and economic consequences (Hitt et al., 2001). Law firms can however only sustain a limited number of equity partners as equity partnership dilutes equity (Malhotra et al., 2010; Malhotra et al., 2016). Thus, the decision to abandon or reproduce the practice of equity partnership is crucial for a large majority of law firms, to attract and retain talent but also with regards to how profits are shared.

Because of the difficulties to sustain a high number of equity partners, the institutionalized practice of equity partnership is progressively eroding. This lead to the progressive emergence of non-equity (or salaried) partnership (Malhotra et al., 2010; Malhotra et al., 2016), a practice that is mostly aimed at retaining top talents by offering them an alternative career path to equity partnership. Such practice offers a number of strategic and instrumental advantages to the firms adopting it by allowing them to increase leverage and often profits. Law firms can also frame the practice as fitting with different life choices. In this sense, the new practice is accepted and spreading (Colyvas & Jonnsson, 2011) thus signalling not only institutionalization, but also diffusion, through its adoption. The rise of the non-equity partnership is concurrent with a reduced proportion of equity partners because the two are mutually exclusive. Our Figure 1 shows how the percentage of non-equity partners on the total number of partners in the Top 100 law firms in the UK rose from 35% to 50%.

Insert figure 1 about here

We now turn towards looking at the different explanations for why specific organizations might start deviating from the norm of equity partnership and adopt non-equity partnership, seeing how different levels of analysis might be connected in triggering institutional change.

Individual and organizational characteristics and institutional change

As stressed in our theory section, individual- and organizational- levels of analysis are deeply interrelated. The population of an organization will necessarily affect its behaviour (Felin et al., 2015), and, as individual-level behaviours aggregate, a critical mass of similarly minded individuals can orient organizational decisions. In our case, the partners are the ones that have been consecrated by the institution, and they also happen to have significant decisional power.

Some determinants of institutional change are expected to be distinct from and, at least to some extent, unrelated to the population within the organization. One important predictor of the career structure and opportunities in law firm is profitability, considering that equity partnership is aimed at sharing this profitability with an increasing number of individuals (Malhotra et al., 2010). We could expect that equity partners in profitable firms may want to avoid sharing the profit and that profitable firms may thus be more likely to abandon a practice that dilutes profits. Thus, we could expect that higher ***profitability per partner*** will make e firms more likely to deviate from the existing practice of equity partnership, in order to avoid sharing profits. Profitable firms may also have more room and leeway to be at the forefront of the deinstitutionalization process and thus innovate by adopting a new practice and abandoning the old one (Spreitzer & Sonenshein, 2004). Alternatively, one could argue that profitability may enable firms to stick to existing practices, and not experience the need to change practices for survival, thus conforming to dominant existing practices. When looking at non-profitable firms, these too may have incentives to adopt or non-adopt new practices. For example, non-profitable firms may adopt non-equity partnership in order to avoid sharing more what is already a low pool of profit[1]. Campbell (2007), however, argues that from an institutional perspective, firms with poor profitability are unlikely to engage in new practices, because they lack slack resources. Thus, we see that there are theoretical arguments to link profitability and adoption of the new practice both positively and negatively and we thus intend to test those two sets of competing mechanisms.

Hypothesis 1a: Profitability per partner is positively associated with the adoption of non-equity partnership.

Hypothesis 1b: Profitability per partner is negatively associated with the adoption of non-equity partnership.

In addition, we can expect ***compensation disparity*** to affect disengagement from equity partnerships. Wide inequalities in wages are often associated with inequalities in the status of employees (Belliveau et al., 1996) and with the fragmentation of the organizational population in subgroups of different salaries. In addition, as explained by Amis and colleagues (2018), inequalities tend to reinforce themselves through the materialization and ultimately institutionalization of practices perpetuating inequalities. There are also significant evidences in economics that institutional change endogenously reinforces inequalities: Fortin and Lemieux (1997) found that a positive association between the rise in wage inequality and

[1] We are grateful for the reviewer's suggestions to flesh out those mechanisms associating profitability and the adoption of the new practice.

deunionization or economic deregulation. Finally, non-equity partnership enables the firms to give the partner title without the access to the profit pool, as a status benefit, to compensate for a non-competitive remuneration at the industry level (Greenberg & Ornstein, 1983). Consequently, we can expect compensation disparity to be associated with the rise of non-equity partnership: this new practice increases inequality by fragmenting the population of partners as a function of their access to profit. In other terms, firms offer the title of partners but differentiate two pathways conditioning the incomes of the two groups.

Hypothesis 2: Compensation disparity is positively associated with the adoption of non-equity partnership.

In addition, the business model of the law firm could play a crucial role in triggering deviance from an institutionalized practice. Law firms as professional service firms are highly reliant on their human capital (Von Nordenflycht, 2010) but there is some variance in the extent to which human capital is used as a strategic lever (Bowman & Swart, 2001). Strategic human resources practices often become institutionalized because of the prevalent value proposition in an industry (Wright & McMahan, 1992). Some firms might decide to rely on cheaper, lower quality and thus less qualified associates to increase profitability. In this case, elite lawyers become expendable and the firm has an incentive in abandoning equity partnership as associates are a less crucial asset in such business model. ***High leverage ratio*** signals the large number of associates by contrast with the number of partners. It means that the business model is not based on the high quality of top partners. In this case, the firm will be more likely to disengage from equity partnership and engage in non-equity partnership as it would not fear a leakage of human capital. At the same time, if the business model is not based on the quality of partners, the willingness and incentives to retain and promote talent might be limited. Such situation creates low strategic incentives for changing practices, so we could alternatively expect firms with high leverage ratio to stick to equity partnership.

Hypothesis 3a: A high leverage ratio is positively associated with the adoption of non-equity partnership.

Hypothesis 3b: A high leverage ratio is negatively associated with the adoption of non-equity partnership.

In addition, we could expect diversity within the organization, in particular ***gender diversity***, to prompt disengagement with equity partnerships. Existing research has shown that a more diverse base in the relationships with outside stakeholders could prompt new practice adoption (Raffaelli & Glynn, 2014). A more diverse employee base may also be more open to institutional change, especially as individual members of an organization, in their diversity, can provide the basis for support to a new practice (Vican & Pernell-Gallagher, 2013). Law firms may also use non-equity partnership strategically to maintain the status quo with regards to diversity. Non-equity partnership can help prevent emerging minorities to reach the equity partnership level by giving them access to a second best option to retain them.

Hypothesis 4a: Gender diversity is positively associated with the adoption of non-equity partnership.

Positive evaluations might also play a role in deviation from the norm (Paolella & Durand, 2016). One of the key social evaluation playing a role in the engagement with institutions is reputation (Rao, 1998). Reputation is defined as the “stakeholders’ perceptions about an organization’s ability to create value relative to competitors” (Rindova et al., 2005: 1033). The uncertainty about the quality of a service provider is compensated by the exchange of information that forms the basis for a reputation judgement (Rao, 1998). Reputation at the organizational level can be conceptualized as the aggregation of micro-level behaviours (Etter et al., forthcoming), and in sectors in which human capital is so crucial such as in professional service firms (Von Nordenflycht, 2010) individuals can be the main drivers of reputation. In fact, in this case, high reputation of individuals can translate into high reputation for the organization.

In the case of law firms, partners are ranked and compared on a regular basis as experts in their areas. Partners are compared to their peers across firms, at the field level. They make or break the reputation of their organization as the individual interactions with institutionalized practices can yield organizational consequences that deter or encourage organizations to enact or refuse institutional change (Roulet, 2019). Although they form a collective for the organization, star lawyers can drive up the deference of stakeholders towards the organization. Higher reputation partners will tend to be conservative with regards to opportunities of institutional change. They will reproduce existing practices that have benefitted them and their reputation (as it enabled them to become partner) and will also align against new practices. Conformity to institutional practices is usually seen at odds with reputation as a signal of differentiation, but individual differentiation may compensate for a non-discriminating posture at the organizational level (Bergh et al., 2010). Thus we expect that the higher the ***average reputation of the partners*** in an organization, the more reluctant their organization will be to disengage from the practice.

Hypothesis 5: The average reputation of the partners will be negatively associated with the adoption of non-equity partnership.

METHODS

Data collection

We built a comprehensive dataset capturing the characteristics of organizations (UK law firms) and their senior employees (partners). We collected data on the reputation of UK lawyers in the legal directory *Chambers and Partners* for the period 2000-2016 (as in Paolella & Durand, 2016). This guide is an invaluable and indispensable source of guidance for in-house counsel in large corporations worldwide. It is designed primarily for firms that require access to pre-eminent practitioners in specific areas of law for instructing cases. Based on extensive independent research, *Chambers and Partners* provides rankings of the best lawyers operating in a specific practice area. We selected eight different practice areas (competition-antitrust, tax, litigation, employment, corporate, intellectual property, real estate, bankruptcy) because they are independent and unrelated according to the experts and lawyers that we interviewed in preparation of this study. These practice areas not only cover conveniently all the scope of law firms, but are also at the top of the list of work usually sent externally by clients and in-house counsels. In addition, we collected data on the law firms in which the ranked lawyers were affiliated with using the professional publication *Legal BusinessWeek*.

Variable definition

Dependent variable. Our dependent variable is the number of non-equity partners within a firm. The higher this number is, the higher the degree to which the firm has engaged with the new practice and disengaged from the institutionalized practice.

Independent variables.

As our independent variable, we first included ***profit per equity partner*** as a measure of firm performance**.** To capture ***compensation disparity*** we included the spread between the top of equity partners and the bottom of equity partners in terms of compensation. ***Leverage*** is computed as the ratio associates to partners (Kor & Leblici, 2005). We use the percentage of female partners on total as a measure of ***gender diversity***. Finally, to capture ***reputation,*** we used an average of the reputation of all partners across different practices. *Chambers and Partners* adopts an ordered scale for each practice area for each year ranging from 1 to 7, with 1 representing the highest rank. We inverted the scale to obtain an increasing value order from 1 (the lowest-ranked lawyer) to 7 for lawyers at the top of the guide's ranking. For example, in our dataset a lawyer ranked in 'tax' with a value of 5 has a higher reputation than a lawyer with a value of 3 in the same practice area. We also included dummy variables to control for specific effect of each practice area. We finally captured *time fixed-effects* by including a set of dummy variables in our models.

RESULTS

To test our hypotheses, we ran random-effects negative binomial models. Descriptive statistics for the variables used are presented in Table 1, and correlations are presented in Table 2. Results testing hypotheses are reported in Table 3. Model 1 contains firm-level variables only and already yields interesting results to understand the deinstitutionalization process.

Insert table 1 about here

Insert table 2 about here

Insert table 3 about here

Importantly, profit per equity partner is negatively associated with non-equity partnership (significant at the $p < 0.01$ level) thus supporting **hypothesis 1b.** Profitable firms conform to the dominant existing practice, as they do not need to adapt for survival. Non-profitable firms may adopt non-equity partnership in order to avoid further sharing of the profits between partners.

While we would expect compensation disparity to be associated with the furthering of practice reproducing inequality within the firm – such as mixing non-equity partnership and equity partnership - we note that compensation disparity does not affect the propensity of firms to disengage from the institutionalized practice. We do not find support for **hypothesis 2.**

Contrary to our first expectation, leverage ratio is negatively associated with deinstitutionalization (significant at the $p < 0.001$ level), meaning that when the ratio of associates to partner is high, the firm will stick to equity partnership. This result supports **hypothesis 3b**. We might explain this result by the fact that firms with high leverage are focusing on commoditized services and thus have little need for non-equity partnership to retain top talent. Thus, those firms stick to the institutionalized practice of equity partnership.

Model 2 adds another variable: the ratio of women among ranked partners in the *Chambers*. This variable has a positive and significant effect ($p < 0.05$) on the adoption of non-equity partnership, suggesting support for **hypothesis 4**. This is aligned with our argument that diversity within organizations makes them more likely to adopt new practices because of the variety of contexts and backgrounds of their employees. The counter-argument concerning the use of non-equity partnership as a tool to discriminate against minority is invalidated.

Finally, Model 3 supports our theoretical argument regarding reputation (**hypothesis 5**): we find that the average reputation of lawyers within an organization negatively affects the ratio of non-equity partners on total number of partners (significant at the $p < 0.001$ level). This result means that organization with members of higher reputation can afford to maintain a costly institution. In this case, law firms with partners of higher reputation are reluctant to engage in deinstitutionalization. This can be due to the fact that the existing practice of equity partner is seen as a positive asset that contributed to the higher reputation of its partners, thus making it likely to be maintained.

DISCUSSION

In this study, we focused on institutional change as a lifecycle of deinstitutionalization-institutionalization of equity and non-equity partnership in the UK legal industry. We explore the determinants of this process at the individual- and at the organizational-level by looking specifically at how the population of organizational members and its characteristics affect the strategic decision of the firm to disengage with an institutionalized practice to enact a new one.

We identified and discarded a number of factors that could explain institutional change towards non-equity partnership, mostly focusing on the pragmatic and economic reasons for adopting a new practice. We noted that wage inequality in the firm had no effect on the erosion of equity partnership. At the same time, profit per equity partner shows a negative relationship with the rise of non-equity partnership, meaning that profitable firms see limited incentives in switching to a new practice. Leverage shows an orientation of law firms towards selling commoditized services. Because of this orientation towards lower value added services, these firms have a limited need to avoid high turnover and retain top talents who are trying to reach partner level. As a consequence, firms with high ratio of associates on partners will have limited incentives to abandon the practice of equity partnership. More gender balanced firms at the partner level are more likely to switch to non-equity partnership, suggesting that gender diverse firms are more prone to adopt the new practice. Finally, the aggregated reputation of a firm's lawyers is negatively associated with the deinstitutionalization of equity partnership. This result suggests that higher reputation lawyers will push their organization to stick to the practice of equity partnership, associating it with their success.

Contribution to institutional theory

While micro-foundations have often been understood as, broadly speaking, a focus on agents, we further develop the idea that micro-foundations do not necessarily only reside at the individual-level and that this individual level has consequences on organizational decision making when averaged and aggregated at the organizational level. We started the paper by stressing the existence of a continuum of levels affecting institutional processes – from individuals to organizations, finally trickling up to the field-level and triggering institutional change through the concurrent deinstitutionalization and institutionalization of practices. Our paper expands on the role of multiple levels of analysis in the micro-foundations of institutional theory (Harmon et al., 2018) by considering the characteristics of populations within organizations and how these populations influence organizational decision making. We indeed tested how individuals, because of their biases, and as a collective, can influence an organization's decision to deviate from or conform to an institutionalized practice. Agents of deinstitutionalization can thus be organizations pushed by their composition and demography. For example, in our case, we looked at the sharing of profit, and the leverage of the firm, which are organizational-level aspects determined by the demography of the organization. A closer look to diversity within organizations may yield interesting results with regards to the behaviour of these organizations with regards to institutions. For example, one could look at other forms of diversity beyond gender.

Suggesting a full continuum of levels of analysis to understand micro-foundations of institutional theory opens a number of new questions and areas of research. Accounting for multiple levels of analysis recognizes that some levels might be more important than others depending on the setting and context. With a sole focus on individual as micro-foundational determinants of (de)institutionalization we run the risk of missing a key explanatory mechanism. It is indeed crucial to look into the characteristics of populations within organizations to understand organizational behaviour and ultimately field-level change.

Limitations and future research

We offer a broad empirical exploration of the factors that might explain the deinstitutionalization of equity partnership and the institutionalization of non-equity partnership. Further research could cover a wider time frame, and the legal industry in multiple countries, to capture more adequately the institutional dynamics. We chose an empirical context in which institutional change can be captured through a cycle of deinstitutionalization and institutionalization succeeding to each other, thus picking a specific 'pathway' of institutional change (Micelotta et al., 2017). Previous studies of deinstitutionalization have recognized that the deinstitutionalization of institutionalized practices might not necessarily make room for new practices to emerge (Maguire & Hardy, 2009). In our case, non-equity (or salaried) partnership progressively replaced equity partnership (Malhotra et al., 2010; Malhotra et al., 2016) and this might have favoured the deinstitutionalization process. We could expect that without a new emerging practice to replace the old one, high reputation individuals will resist deinstitutionalization even harder as they know that the alternative is yet to be shaped. Future research could differentiate situation in which deinstitutionalization is followed by another period of institutionalization. In our empirical context, it is however difficult to disentangle whether the process of deinstitutionalization and institutionalization is due to a higher appeal of the multi-tier partnership (including both equity and non-equity partnership) or a lower appeal of the collegial partnership (including only equity partnership), or both.

As we stress the importance of studying a continuum of levels of analysis to understand the micro-foundations of institutional theory, building upon Harmon et al. (2018), we call for future research to further this stream of work. How does individual resistance to an institutionalized practice shift towards group resistance? When does this resistance reach a critical mass or a threshold beyond which we can consider a practice (de)institutionalized (Clemente & Roulet, 2015)?

In addition, we could wonder whether our results are generalizable to other professional service firms (Von Nordenflycht, 2010). How do other professional service firms such as investment banks, audit firms or consulting firms differ in their determinants of engaging in institutional change? The perception of typical practices in the investment banking industry for example depends on the sub-groups within this field (Roulet, 2015; 2019). In fact, within investment banks, we could expect senior executives in equity research to perceive more negatively typical practices such as bonuses and lobbying compared to executives in the mergers and acquisition teams. The stigmatization of minorities in audit firms also epitomizes the negative consequences of institutions and the resistance of employee groups (Stenger & Roulet, 2018).

CONCLUSION

In this study, we empirically examined how organizational deviance from equity partnership resulted in the erosion of this practice in the UK legal industry and the emergence of non-equity partnership as an alternative practice. By studying a specific institutional lifecycle and the co-occurrence of deinstitutionalization and institutionalization processes, while examining both demographic and organizational determinants, we acknowledge the diversity of micro-foundational mechanisms in institutional theory. While micro-foundations have often been understood, broadly speaking, as a focus on agents, we further develop the idea that micro-foundations do not necessarily only reside at the individual level. In fact, we stress the importance of taking into account a continuum of levels affecting institutional processes, in particular as population within organizations influence their decision making with regards to institutionalized practices, ultimately affecting institutional processes at the broader level.

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TABLES AND FIGURES

FIGURE 1: Percentage of salaried partners on total number of partners

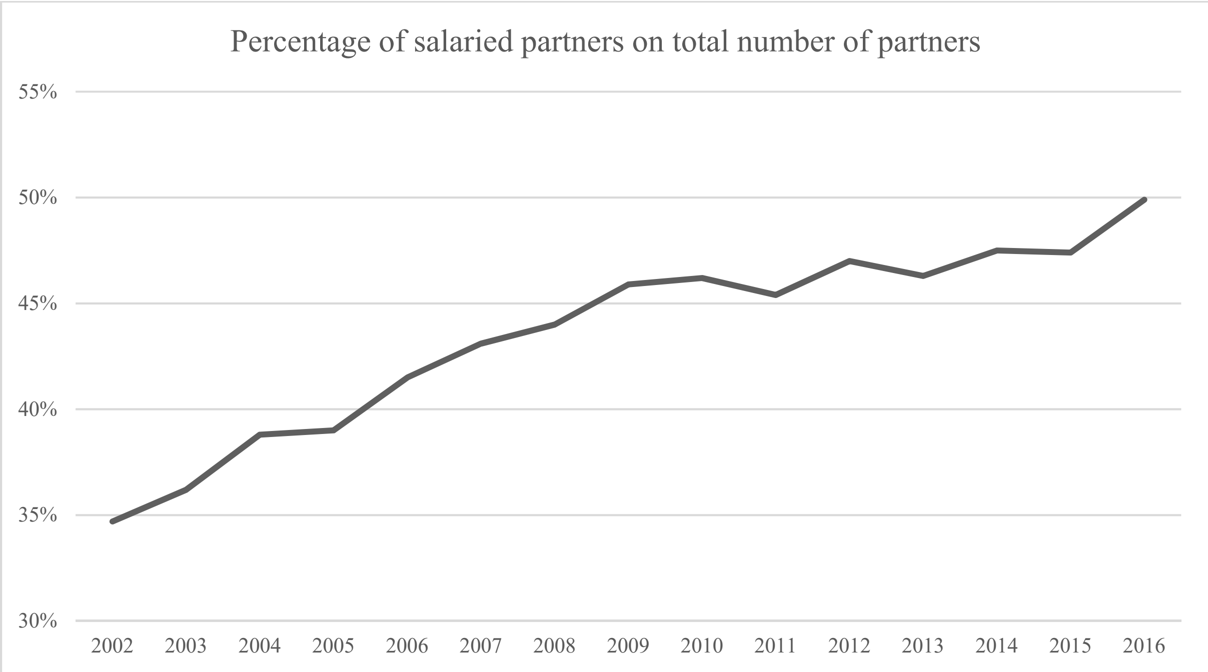

TABLE 1. Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
non-equity partner	683	66.72	94.94	0	840
profit per equity partner	683	447.96	241.30	65	1832.5
spread top/bottom eq. partners	683	410495.60	308309.30	9000	3550000
leverage	683	2.66	0.97	0.73	7.38
lawyers gender	683	0.21	0.22	0	1
lawyers reputation	683	2.79	0.91	1	6
partnership size	683	159.01	178.16	18	1302

TABLE 2. Pairwise Correlations

Variables	1	2	3	4	5	6
1. non-equity partner						
2. profit per equity partner	0.28					
3. spread top/bottom eq. partners	0.08	0.11				
4. leverage	0.03	0.40	0.03			
5. lawyers gender	0.00	-0.05	0.03	0.06		
6. lawyers reputation	0.10	0.31	0.10	0.32	-0.02	
7. partnership size	0.86	0.49	0.08	0.28	-0.01	0.27

TABLE 3. Random-Effects Negative Binomial Models

VARIABLES	Model 1	Model 2	Model 3
profit per equity partner	-0.002	-0.002	-0.002
	(0.010)	(0.009)	(0.009)
spread top/bottom eq. partners	0.001	0.001	0.001
	(0.644)	(0.778)	(0.647)
leverage	-0.25	-0.26	-0.26
	(0.000)	(0.000)	(0.000)
lawyer gender		0.15	0.15
		(0.045)	(0.046)
Lawyer reputation			-0.08
			(0.000)
partnership size	0.01	0.01	0.01
	(0.000)	(0.000)	(0.000)
Constant	3.38	3.43	3.78
	(0.000)	(0.000)	(0.000)
Log Likelihood	-2793.69	-2785.2	-2778.35
Wald chi-square	1085.94	1073.78	1071.93
	(0.000)	(0.000)	(0.000)
Year fixed-effects	Yes	Yes	Yes
Observations	683	683	683

p-value in parentheses